

IRS TAX TIP 2002-46

DON'T BE TAKEN IN BY TAX SCAMS

The IRS reminds taxpayers not to fall victim to a variety of tax scams. These schemes take several shapes, ranging from promises of special tax refunds to illegal ways of “untaxing” yourself. If people think something may be unscrupulous, they can report suspected tax fraud to the IRS at 1-800-829-0433.

The IRS urges people to avoid these common schemes:

AFRICAN-AMERICANS GET A SPECIAL TAX REFUND. Thousands of African-Americans have been misled by people offering to file for tax credits or refunds related to reparations for slavery. There is no such provision in the tax law. Some unscrupulous promoters have encouraged clients to pay them to prepare a claim for this refund. But the claims are a waste of money. Promoters of reparations tax schemes have been convicted and imprisoned. The IRS reminds taxpayers that they could face up to a \$500 penalty for filing such claims if they do not back away from the claim.

NO TAXES WITHHELD FROM YOUR WAGES. Illegal schemes are being promoted that instruct employers not to withhold federal income tax or employment taxes from wages paid to their employees. These schemes are based on an incorrect interpretation of tax law and have been refuted in court. If you have concerns about your employer and employment taxes, you can get help by calling the IRS at 1-800-829-1040.

“I DON’T PAY TAXES – WHY SHOULD YOU?” Con artists may talk about how they don’t file or pay taxes and then charge people a fee to share their “secret.” The real secret that these people don’t reveal is that many of them actually do file and pay taxes -- they just won’t publicly admit it. Again, the IRS reminds people that failure to file or pay taxes is subject to civil and/or criminal tax penalties.

PAY THE TAX, THEN GET THE PRIZE. The caller says you’ve won a prize and all you have to do to get it is pay the income tax due. Don't believe it. If you really won a prize, you may need to make an estimated tax payment to cover the taxes that will be due at the end of the year. But the payment goes to the IRS – not the caller. Whether you’ve won cash, a car, or a trip, the prize giver generally sends you and the IRS a Form 1099 showing the total prize value that should be reported on your tax return.

UNTAX YOURSELF FOR \$49.95. This one's as old as snake oil, but people continue to be taken in. And now it's on the Internet. The ads may say that paying taxes is "voluntary," but it is absolutely wrong. The U. S. courts have continuously rejected this and other similar arguments. Unfortunately, hundreds of people across the country have bought "untax packages" before finding out that following the

advice contained in them can result in civil and/or criminal tax penalties being assessed. Numerous sellers of these bogus packages have been convicted on criminal tax charges.

SOCIAL SECURITY TAX SCHEME. Taxpayers shouldn't fall victim to a scam offering them refunds of the Social Security taxes they have paid during their lifetimes. The scam works by the victim paying a "paperwork" fee of \$100, plus a percentage of any refund received, to file a refund claim with the IRS. This hoax fleeces the victims for the upfront fee. The law does not allow such a refund of Social Security taxes paid. The IRS processing centers are alert to this hoax and have been stopping the false claims.

"I CAN GET YOU A BIG REFUND...FOR A FEE!" Refund scheme operators may approach you wanting to "borrow" your Social Security Number or give you a phony W-2 so it appears that you qualify for a big refund. They may promise to split the refund with you, but the IRS catches most of these false refund claims before they go out. And when one does go out, the participant usually ends up paying back the refund along with stiff penalties and interest.

SHARE/BORROW EITC DEPENDENTS. Unscrupulous tax preparers "share" one client's qualifying children with another client in order to allow both clients to claim the Earned Income Tax Credit. For example, if one client has four children, they only need to list two for EITC purposes to get the maximum credit. The preparer will list two children on the first client's return and list the other two on another client's tax return. The preparer and the client "selling" the dependents split a fee. The IRS prosecutes the preparers of such fraudulent claims, and participating taxpayers could be subject to civil penalties.

IRS "AGENT" COMES TO YOUR HOUSE TO COLLECT. First, do not let anyone into your home unless they identify themselves to your satisfaction. IRS special agents, field auditors, and collection officers carry picture IDs and will normally try to contact you before they visit. If you think the person on your doorstep is an impostor, lock your door and call the local police. To report IRS impostors, call the Treasury Inspector General's Hotline at 1-800-366-4484.

"PUT YOUR MONEY IN A TRUST AND NEVER PAY TAXES AGAIN." Promoters of abusive trust schemes may charge \$5,000 to \$70,000 for "trust" packages. The fee enables taxpayers to have trust documents prepared, to utilize foreign and domestic trustees as offered by promoters and to use foreign bank accounts and corporations. Although these schemes give the appearance of the separation of responsibility and control from the benefits of ownership, these schemes are in fact controlled and directed by the taxpayer. A legitimate trust is a form of ownership that completely separates responsibility and control of assets from all of the benefits of ownership.

IMPROPER HOME-BASED BUSINESS. This scheme purports to offer tax" relief" but in reality is illegal tax avoidance. The promoters of these schemes claim that individual taxpayers can deduct most, or all, of their personal expenses as business expenses by setting up a bogus home-based business. But, the tax code firmly establishes that a clear business purpose and profit motive must exist in order to generate and claim allowable business expenses.

CLAIM DISABLED ACCESS CREDIT FOR PAY PHONES. Con artists sell expensive coin-operated pay telephones to individuals, contending they can claim a \$5,000 Disabled Access Credit on their tax return because the telephones have volume controls. In reality, the Disabled Access Credit is limited to bona fide businesses that are coming into compliance with the Americans with Disabilities Act.

Two lessons to remember:

- Anyone who promises you a bigger refund without knowing your tax situation could be misleading you, and
- Never sign a tax return without looking it over to make sure it's honest and correct

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